

****Title:****

City Government of San Pablo, Laguna, et al. vs. Hon. Bienvenido V. Reyes, et al.

****Facts:****

The controversy began when the Manila Electric Company (MERALCO) sought to invalidate Section 2.09 Article D of Ordinance No. 56, also known as the Revenue Code of the City of San Pablo. This ordinance imposed a franchise tax on businesses enjoying a franchise. According to MERALCO, separate legislative acts namely, Act No. 3648, Republic Act No. 2340, and Presidential Decree No. 551 granted it a tax incentive, paying only a 2% tax on its gross receipts “in lieu of all taxes,” making the local franchise tax imposition ineffective and void.

The City Government of San Pablo enforced the ordinance, compelling MERALCO to pay the franchise tax under protest. Subsequently, MERALCO filed a case at the Regional Trial Court (RTC) in San Pablo City for the nullification of the ordinance insofar as it imposed the franchise tax on MERALCO and claimed a refund of the taxes paid under protest.

The RTC ruled in favor of MERALCO, declaring the ordinances ineffective and void, mandating a tax refund. The City Government sought reconsideration, which was denied, prompting them to elevate the matter to the Supreme Court via a petition under Rule 45 based on pure legal questions.

****Issues:****

1. Whether Republic Act No. 7160 (the Local Government Code of 1991) repealed the tax exemptions provided under Act No. 3648, Republic Act No. 2340, and Presidential Decree No. 551.
2. Whether Section 193 of the Local Government Code effectively withdrew the exemption and privileges previously granted to MERALCO.
3. Whether the imposition of the local franchise tax impairs the contractual agreement between the government and MERALCO, thus violating the non-impairment clause of the Constitution.

****Court’s Decision:****

The Supreme Court reversed the RTC’s decision and dismissed MERALCO’s complaint.

1. ****Repeal of Tax Exemptions:****

- The Court found that Republic Act No. 7160 intended to repeal the tax exemptions provided to MERALCO. Sections 137 and 193 of the LGC authorized local government units

to impose franchise taxes notwithstanding any previous exemptions.

2. **Withdrawal of Tax Exemptions:**

- The Court held that Section 193 clearly withdrew existing tax exemptions unless otherwise specifically provided within the Local Government Code. The exclusive enumeration of exempt entities (local water districts, cooperatives, non-stock, and non-profit hospitals, and educational institutions) excluded MERALCO, making its exemption inapplicable post-LGC.

3. **Impairment of Contracts:**

- The Court did not find a violation of the non-impairment clause. It emphasized that franchises are inherently subject to amendment, repeal, or alteration by subsequent legislation as stated in Section 5, Article X of the Constitution. The legislative intent behind the LGC was to enable local governments to generate adequate revenues to support local autonomy and development.

Doctrine:

1. **Repeal of Tax Exemptions in the Local Government Code:**

- The explicit provisions of the LGC specifically withdrawing tax exemptions override previous exemptions granted under special laws.

2. **Impairment of Contracts:**

- Legislative franchises are subject to alterations through reasonable exercises of police power and the power to tax, which cannot be contractually waived.

Class Notes:

- **Franchise Tax (Section 137, LGC):** Provinces may impose a franchise tax on businesses enjoying a franchise, at a rate up to 50% of 1% of gross annual receipts.

- **Withdrawal of Tax Exemptions (Section 193, LGC):**

- General rule: All tax exemptions or incentives are withdrawn, except specified exceptions.

- **Expressio Unius Est Exclusio Alterius:** Express mention of specific exceptions excludes all others.

- **Non-impairment Clause (Constitution):** Exceptions include provisions for police and taxation powers to amend or repeal contracts/franchises.

- **Repealing Clause (Section 534(f), LGC):** General repealing provision implying non-existence of conflicting portions of previous acts.

Historical Background:

Act No. 3648 in the early 20th century granted legislative franchises like that of Escudero

Electric Services Company, emphasizing tax incentives for infrastructural development. Over time, MERALCO inherited these incentives. Fast forward to 1991, the Local Government Code thoroughly reformed local fiscal policies to enhance local autonomy, mandating localities to be more financially self-reliant, which necessitated the re-assessment and withdrawal of such historical tax incentives previously granted to encourage industrial growth.